

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Cowlitz County, Washington
October 1, 1991 Through September 30, 1992

Schedule Of Findings

1. The Housing Authority Should Submit Accurate Financial Reports

As described in the Auditor's Report On Financial Statements, the housing authority's financial reports for fiscal year 1992 contain material errors affecting two of its programs, Section 8E (002-011) and Section 8E (013). The errors are the result of accounting control weaknesses that occurred during turnovers in the accounting staff, and during several accounting system changes which took place in 1992.

The housing authority hired a new accountant, but as it was late in the fiscal year, she did not have adequate time to correct all the errors.

Both federal and state directives require accurate financial reports. The United States Department of Housing and Urban Development (HUD) Handbook 7420.7, Chapter 12-3 states in part:

Public Housing Authorities are required to maintain complete and accurate books of accounts and records for each program under the Annual Contributions contract. The books and records must comply with HUD requirements and must permit a speedy and effective audit.

RCW 43.09.230 states in part:

The state auditor shall require from every . . . political subdivisions financial reports covering the full period of each fiscal year . . . The reports shall contain accurate statements . . .

We recommend housing authority officials establish and maintain sufficient accounting controls to provide accurate financial reports. We acknowledge that officials have made improvements since our last audit, and understand they are committed to further improvements in their accounting and reporting system.

2. The Housing Authority Should Process All Employee Compensation Through Its Payroll System

During fiscal year 1992, the housing authority paid some of its employees part of their compensation outside the payroll system, and paid other individuals as independent contractors. Therefore, the authority did not deduct or pay normal payroll taxes on this compensation, nor was it reported to the appropriate state and federal agencies as employee compensation.

In our opinion, these individuals did not meet the "independence" criteria of the statutes cited below, and should have been considered employees and paid through the payroll system.

According to RCW 50.04.140, remuneration for services rendered by an individual is reportable employment unless it can be shown that the individual meets all 3 of the following tests of independence:

(a) Such individual has been and will continue to be free from control or direction over the performance of such service, both under his or her contract of service and in fact; and

(b) Such service is either outside the usual course of business for which such service is performed, or that such service is performed outside of all the places of business of the enterprises for which such service is performed; and

(c) Such individual is customarily engaged in an independently established trade, occupation, profession, or business, of the same nature as that involved in the contract of service.

Internal Revenue Service, Circular E, Publication 15, also states that if the employer "has the legal right to control the method and result of the service", the individual is an employee.

Apparently, housing authority officials were not aware of these legal requirements. Paying employees outside the payroll system, and treating other individuals as independent contractors instead of employees, exposes the authority to possible liability for unanticipated unemployment claims, retirement payments, and withheld federal taxes.

We recommend the housing authority pay all individuals through the payroll system, unless they meet all the tests of independence according to the requirements of state and federal agencies. In addition, we recommend the housing authority provide employees with amended IRS form W-2 to include all 1992 compensation paid.